

**AR48**

**CONFEDERATION LIFE  
INSURANCE COMPANY**

**ANNUAL REPORT 1981**

## THE COMPANY

Confederation Life was incorporated by an Act of the Parliament of Canada on April 14, 1871, and commenced business on October 31, 1871, as Confederation Life Association. The business grew steadily. In 1906 the Company commenced operations in the United Kingdom, and 20 years later opened its first office in the United States.

A by-law authorizing the mutualization of the Company through purchase of its own Capital Stock was approved by the Treasury Board of Canada. The mutualization program was completed in December, 1968.

In January, 1974, the Company restructured its organization to give greater emphasis to the geographical regions in which it operates. These are Canada, the United States and Caribbean, and the United Kingdom. Now in its second century of operation, the Company is entirely owned by its policyholders.

The Home Office is located at 321 Bloor Street East, Toronto, Canada, M4W 1H1.

*Pour obtenir un exemplaire en langue française de ce rapport annuel, veuillez vous adresser au*

*Service des communications de la direction générale*

*La Confédération, Compagnie*

*d'Assurance-Vie*

*321 est, rue Bloor,*

*Toronto, Canada M4W 1H1*

## HIGHLIGHTS OF 1981

Stated in thousands of dollars.

	1981	1980
<b>New business—Premiums</b>		
Individual Insurance	\$ 40,941	\$ 31,947
Individual Annuities	134,867	60,618
Group Life	13,350	12,955
Group Health	81,376	56,163
Group Pensions	49,965	47,558
<b>Business in force</b>		
Individual Life (amounts of insurance)	9,097,422	7,708,502
Group Life (amounts of insurance)	35,878,118	26,988,816
Health (premiums in force)	353,541	270,187
Annuities and Pensions (funds held)	<u>1,626,262</u>	<u>1,478,145</u>
<b>Claims paid</b>	<u>47.03</u>	<u>36.42</u>
	435,959	339,002
<b>Individual dividends</b>	28,457	26,391
<b>Operating income</b>	21,092	35,834
<b>Surplus and investment and contingency reserve</b>	232,956	224,947
<b>Assets</b>	3,471,055	3,163,835
<b>Net rate of interest earned</b>	10.06%	9.88%

## CONTENTS

Highlights of 1981	1
Message to Policyholders	2
Report on Operations	4
Canada	6
United States and Caribbean	7
United Kingdom	8
Investments	9
Consolidated Statement of Operations	10
Consolidated Statement of Surplus	11
Consolidated Balance Sheet	12
Notes to Consolidated Financial Statements	14
International Operations	16
Board of Directors and Senior Officers	17

## MESSAGE TO POLICYHOLDERS

As the reports that follow will show, 1981 was a good year for Confederation Life. Increased policyholder dividend rates reflect satisfactory financial results. We achieved most of our sales and growth objectives, yet we cannot afford to become complacent, for the winds of change are strong. Generated largely by inflation and high interest rates, change in the life insurance business has seldom been so rapid.

### High Interest Rates

Life insurance companies in North America have always been proud that policyholders with cash value policies can turn, in time of need, to their policy loan facility as a source of easily available funds. Today's high interest rates have made loans on older policies seem unusually attractive. The resulting outflow of money has had a significant effect on life insurance company cash flow. Funds which otherwise would have been available for investment at current rates of interest have had to be directed to low interest policy loans. Some life insurance companies, particularly in the United States, have been severely affected. In the case of Confederation Life, while the outflow of funds for policy loans have been at a record level, the problem has not been acute.

High interest rates have created some shift in demand from long term to shorter term policy contracts. Life insurance policies that guarantee benefits many years ahead cannot be based on the assumption that interest rates will remain at their current extraordinary levels. If high rates do continue, then the resulting financial benefits will be paid as policy dividends—but there is no guarantee that the high current rates of interest will continue. Yet, understandably, many people want



J. Page R. Wadsworth, Chairman of the Board, left, and J. A. Rhind, President and Chief Executive Officer.

policies whose premiums or benefits are calculated on the assumption of high interest earnings. If such is to be the case, then benefits can be guaranteed for only a few years. Thus the swing has been to shorter period contracts, and to "flexible" policies where premiums or benefits periodically change with the changing levels of interest rates. This type of shifting has resulted in an increase in the level of policy surrenders.

No one can say which type of plan will prove best—the short contract based on current high interest

rates or one with a long term guarantee, in which amounts of insurance and dividends are based on an average of the rates of return over the period of years in which the premiums are paid. If interest rates should fall back, then the current "new money" rate of return may be less than that earned by the mix of assets invested over past years. It is the latter rate that traditionally determines the level of profits and dividends paid.

At Confederation Life we are providing a choice; the new and the

old. In Canada, we have a new product called Lifetime Term which unlike traditional term insurance, does not terminate at a fixed age. With this plan, premiums, or amounts of protection, change every five years according to the level of interest rates. In the U.S., we are closely watching marketing and tax developments, and the concept known as "Universal Life". In the United Kingdom, we have, for several years, been offering "linked" policies in which the value of the benefits is based on the market value of their related investments.

### Canada's Budget

High interest rates have drawn special attention to the return on investments underlying certain life insurance contracts, and the question of taxability of such income imputed to the policyholder. The November budget of the Canadian government proposes a personal income tax on such "gains" from all types of newly-issued permanent insurance plans. This is one of many proposals designed to eliminate tax inequities, but it creates a net that scoops far too widely. Such a plan displays a misunderstanding of the nature of a cash value life insurance policy, for cash values are a by-product of the level premium system. They are not created to fulfill an investment objective. Perhaps by the time this report is printed, meetings between Canadian government officials and representatives of the life insurance industry will have eliminated this misunderstanding.

In any event, the proposed tax on the so-called "gain" on policies does not affect policies purchased prior to November 12, 1981. This should provide an added incentive to policyholders to maintain such contracts in good standing. Whatever the outcome, Confederation Life

will accept such change as an opportunity to market new products to meet new demands.

### Health Care Costs

The escalation of costs in the area of health care delivery is one of the most worrisome problems in the insurance industry. The problem exists in all countries in which we do business. Where governments are financing hospitals, and other health services, as in Canada and the United Kingdom, health costs have become an enormous burden on the public treasury. The limitation of support from government is strangling many hospitals. They are faced with mounting deficits and for many, the situation has reached the crisis stage.

In the United States, government-sponsored medical and hospital plans, such as Medicare and Medicaid, do not reimburse the hospitals for the full costs of health services supplied to claimants. To offset this deficiency, many hospitals have had to increase their charges for health services to those using private plans, such as the ones underwritten by Confederation Life. This has created financial problems for hospitals serving areas with a low percentage of private plans and the shifting of costs to the private plans has contributed to the unsatisfactory results in the group health business of the life insurance companies. Confederation Life has been no exception to this pattern.

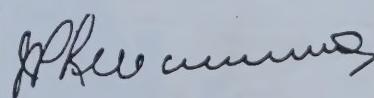
### Improving Pensions

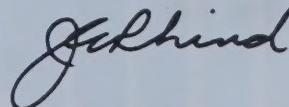
Inflation has created serious problems in the field of pensions. The falling value of the fixed pension dollar has brought hardship to those already retired. In last year's report we drew attention to the problems of providing adequate pensions and to the challenge being faced by the

private pension system. In Canada, the life insurance industry's proposals for improving the private system have been favourably recognized at both the federal and provincial levels. Through the Canadian Life and Health Insurance Association the industry has developed a model portable pension system to demonstrate that portability is feasible within the private system. In addition the industry has designed a simplified plan for small employers, the Uniform Pension Plan (UPP) which is being made available to small Canadian companies. Confederation Life is participating in the marketing of this plan.

The payment of claims and other benefits is a measure of a life insurance company fulfilling its role. During 1981 Confederation Life issued an average of 10,000 cheques to policyholders and beneficiaries every working day. These included death benefits, health, disability and dental claims and annuity payments.

We have provided this kind of service for 110 years. During this span of time Confederation Life has seen great changes, yet it has grown steadily, and is now stronger than ever. Today's changing environment for our business should be viewed in this perspective. It is a time for developing new plans for financial protection, a time of new opportunities in the marketplace.

  
J. Page R. Wadsworth  
Chairman of the Board



John A. Rhind  
President and Chief Executive Officer

## REPORT ON OPERATIONS

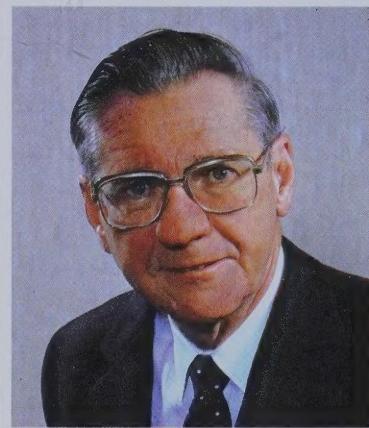
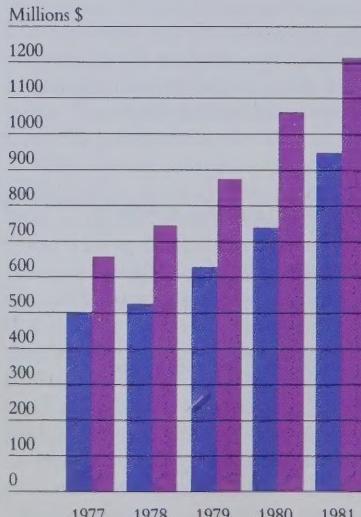
Excellent sales in almost all areas and lines of business highlighted the Company's 1981 results.

Sales of Individual insurance amounted to \$40.9 million of new annual premium, an increase of 28.2 per cent over 1980. Single premium annuity sales increased by 193.2 per cent and reached \$125.8 million. Annual premium annuity sales added a further \$9 million to the outstanding results achieved by our individual sales organization in all major operating areas.

Group sales totalled \$144.7 million of premiums for an increase of 24 per cent. This total is made up of \$13.3 million of Life, \$81.4 million of Health and \$50 million of Pensions.

With inflation and interest rates continuing at high levels, shifts in buyer preferences have continued to develop. In response to these patterns, 1981 was a year of unusually high activity in the area of product innovation for Individual insurance.

### TOTAL INCOME PREMIUM INCOME

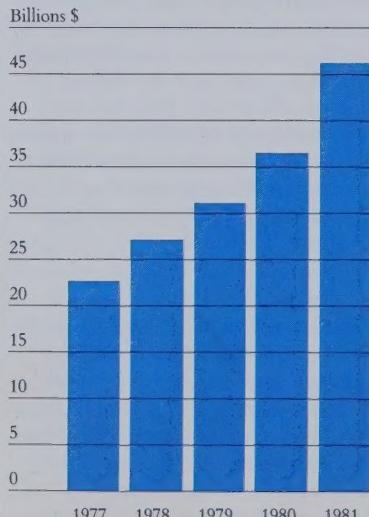


P. D. Burns  
Executive Vice-President

Competition intensified in the Group insurance field as employers, faced with expense pressures, searched for ways to contain the rising costs of employee benefits.

In most areas, mortality expe-

### TOTAL INSURANCE IN FORCE

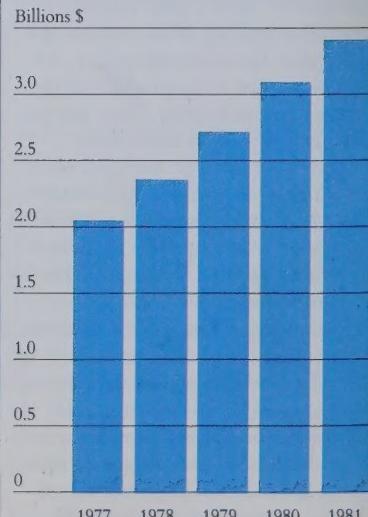


rience continued to be favourable and this fact coupled with the high interest rates that prevailed, enabled the Company to continue and in many cases increase dividends to individual policyholders.

Operating income at \$21.1 million was somewhat lower than the unusually high level of \$35.8 million earned in 1980. In each case these results are after providing for dividends to individual policyholders and for corporate taxes. The positive contribution to operating income resulting from favourable mortality was more than offset in 1981 by the unexpectedly high claim levels that we experienced in our Group Health operations in both Canada and the United States.

Expenses rose to \$139.9 million, an increase of 26.8 per cent. Like most industries we are faced with pressures of escalating costs and intensifying competition. Much of our increase in expenses is related

### ASSETS



directly to the excellent sales results that were achieved. The increase in administrative expenses while sizable, is consistent with the nature and level of our growth and with our aggressive plans for even greater rates of growth in the future.

Over the past several years, many large Canadian corporations have looked to Confederation Life for the investment management of their pension assets. Our rate of growth has been among the best in the industry. Recently, investment counselling organizations have begun to achieve a significant degree of penetration in this growing market, as some pension plan sponsors have been attracted by the short term performance of some of these organizations. During 1981, we suffered the loss of a small number of our clients. Also during 1981 market values declined. As an example, The Toronto Stock Exchange 300 Index declined by 13.9 per cent. The result

of these and other less important factors is that our Segregated Investments, which are shown at market value on the Balance Sheet, now stand at \$864.1 million compared to \$901.8 million a year ago.

The mandatory Additional Reserve Required by Law increased by \$23.2 million to \$92.7 million. The Investment and Contingency Reserve of \$110 million and Surplus of \$123 million totalled \$233 million, an increase of \$8 million, adding further to the Company's strong financial position.

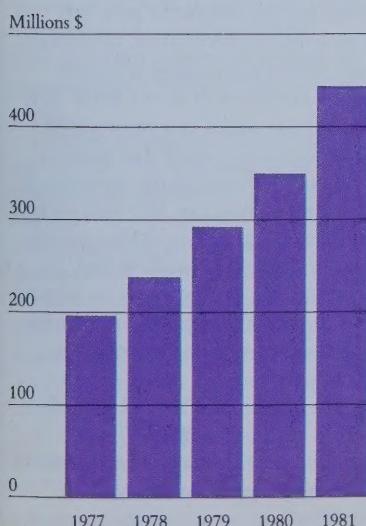
After careful study, the Company decided in early 1981 to establish a Head Office for its United States and Caribbean Operations. The city of Atlanta, Georgia was selected and plans are proceeding on schedule for this major undertaking. The transfer will take place during the summer of 1982.

During the year, the Company continued its active program of

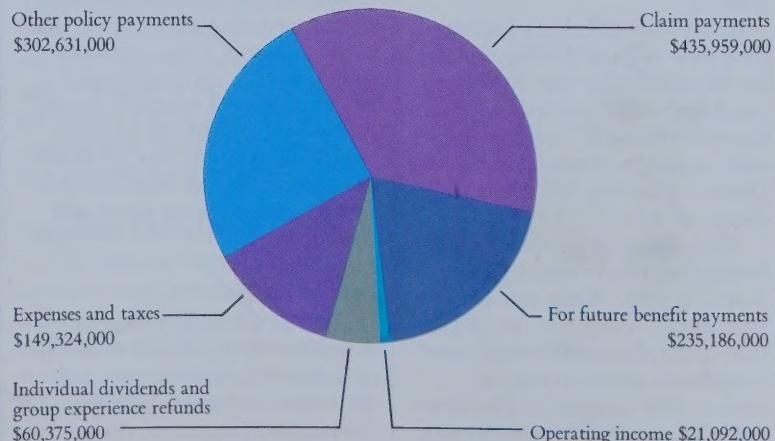
computer development. Such systems enable us to deliver high quality service. They also are vital to the provision of our information needs and offer an unusually attractive opportunity to control administrative costs in an inflationary environment.

The foregoing comments and the accompanying statements tell an impressive story of accomplishment in 1981. Behind these figures is a company-wide philosophy of consumer orientation. This begins with a continual monitoring of the changing attitudes and buyer preferences in our various markets and leads to imaginative responses from our marketing, investment, data processing, and other supporting staff. We are confident of our ability to continue the successes of 1981. Much of this confidence is based on the talent and commitment of the nearly three thousand men and women who make up Confederation Life. □

## CLAIMS PAID



## DISTRIBUTION OF INCOME



Sales of Individual insurance products in 1981 were excellent; over 26 per cent higher than in the previous year. While many sales offices surpassed their objectives, Toronto City Branch deserves recognition as the Company's leading office, while the St. John's, Newfoundland Branch won, for the fourth consecutive year, the President's Trophy, awarded for excellence in agency building.

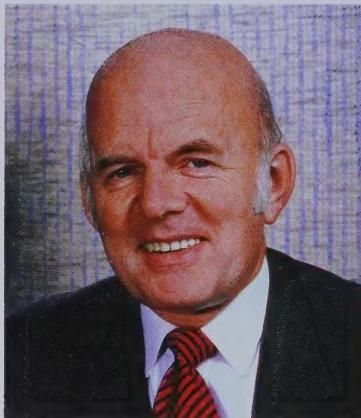
Sales of annuity products generated premiums at the extraordinary level of \$126 million, more than double that of 1980. The sale of these products, and the ability to secure appropriate matching investments, are strongly inter-dependent. With the volatility of interest rates over the past year, it was particularly challenging to maintain a consistent relationship between the yields and terms of these assets and liabilities.

### Group Insurance

Confederation Life is a dominant influence in the Group Life and Health market in Canada. Sales in 1981 continued the excellent pattern of the past several years. Total premium income was up almost 20 per cent over the comparable figure for 1980.

Group sales and claims facilities continued to grow. During the year, the Montreal office was moved to greatly expanded quarters in "Place Confédération-Vie", and new offices were opened in Ottawa and London, Ontario, providing full sales and claims service.

The spectacular growth of Group Pension business in recent years slowed in 1981. While new deposits were slightly above last year, higher-than-usual plan terminations caused funds under administration to increase only marginally. The slower growth is expected to be temporary.



J. B. Heard  
Vice-President, Canadian Operations

In 1982 Pension Investment services will be expanded by the introduction of a Pooled Real Estate Fund.

### Claims Experience

Claims experience was somewhat mixed in 1981. Mortality continued at much better than expected levels in Individual Life business, but at higher than expected levels in Group Life. Group Disability experience was poorer than expected with both the incidence of claims and rates of recovery providing unfavourable results. Inflation, high interest rates, and an intensification of competition in the pricing of Group products all served to create an environment which challenged acceptable profitability levels. While we are concerned about results that fall below expectations, we are confident that action currently being taken will correct the trend.

### Federal Budget

The Federal Budget proposals of November 1981 included a number of features which could adversely affect the Canadian policyholder and our market. Two, in particular,

showed a surprising social insensitivity and lack of understanding of the nature of life insurance products. One is the proposal to tax the individual on his employer's contribution to fringe benefits such as Major Medical and Dental plans. The other is the proposal to tax an individual every third year on the presumed internal growth in value of a permanent life insurance policy. This illusory gain is not available to the policyholder and in fact cannot be realized unless he surrenders the policy and gives up the insurance which was its main purpose. It is to be hoped that the Parliamentary Committee reviewing these proposals will recognize their inappropriateness and recommend they be dropped.

For most individuals, permanent life insurance will remain the cornerstone of their personal financial planning. We will continue to emphasize and promote permanent plans, shaping the design and structure to accommodate whatever legislation is introduced.

Much attention was directed at both the federal and provincial levels, to the subject of pensions. The questions of universality, portability, and inflation-proofing attracted much attention. It is our belief that the private sector can most appropriately deliver plans that accommodate the needs of the majority of working Canadians. We will continue to expand the pension activities of Confederation Life and, to promote the ability of the industry, rather than the public sector, as the most effective means of meeting these needs.

The excellent sales and growth results in Canada, in 1981, will provide strong momentum as we face the "Opportunities of the Eighties". □

## UNITED STATES AND CARIBBEAN

Despite a soft economy in the United States and Caribbean Region, the sales and growth results were excellent in both the Group and Individual lines of business.

### Group Insurance

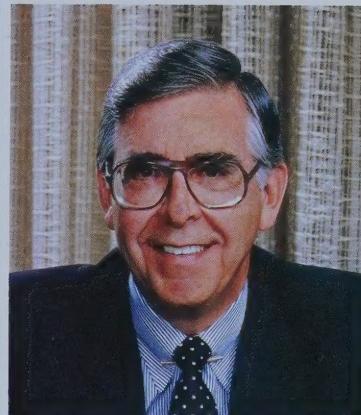
The Group operation showed an increase of 73 per cent in sales over 1980, to raise premium income in the Life and Health lines to \$104 million (U.S.), a significant increase from the level just ten years ago of \$21 million (U.S.). While Group sales and growth were strong in 1981, the financial result was unsatisfactory. This is cause for concern and steps have been taken to reverse the trend, including major rate increases.

Cost-shifting in the health care delivery system from the public to the private sector is placing an increasing and unfair burden on the cash-paying patient, whether or not he is covered through an insurance company. The daily allowance provided to hospitals for Medicare and Medicaid patients by Government is less than the hospitals' cost in many cases, and the shortfall is passed to the private patient. This situation makes it difficult to price our product adequately since published inflation rates for health services do not accurately reflect what is taking place.

An increasing number of employers are self-insuring their health benefits and are looking to the insurance industry to supply only the administrative services as they assume the financial risk themselves. Our new computerized claim system will position us to supply this service on a cost efficient basis and we intend to pursue actively this growing market.

### Individual Insurance

The sales results of the Individual insurance operation were also excel-



P. W. Lloyd  
Vice-President, United States and  
Caribbean Operations

lent. New business premiums increased 28 per cent over 1980 and total premium income grew by 16.5 per cent to \$82 million (U.S.). Financial results continue to be excellent, and so the Board of Directors has again approved an increase in dividend scales for certain blocks of policies.

We now have 293 General Agents throughout the United States. This compares with 278 a year earlier and is almost double the number at the end of 1977. This group of knowledgeable and dedicated individuals, serving their clientele in the corporate and estate markets, achieved sales averaging in excess of \$120,000 per policy. This is a substantial increase over the \$90,000 average face amount figure of 1980.

### Caribbean Operations

The Barbados organization had another record-breaking year. While sales in the Dominican Republic were down in 1981 the performance was still most creditable considering the depressed economic conditions in that country during the year.

A major development during 1981 was the decision to move the United States and Caribbean operation from Home Office in Toronto to new headquarters in Atlanta, Georgia. A new building is under construction in Interstate North Office Park located in the northwest area of suburban Atlanta. Our new U.S. Head Office is a joint venture between Confederation Life and Interstate North.

We expect to begin operations with a staff of approximately 275 of which some 50 management personnel will be relocating from Home Office. The remaining 225 will be, in the main, hired locally.

August, 1982, is the target date for the move. While we recognize there must inevitably be some delays in service, every effort is being made to minimize these. The hiring and training of new staff are under way which will strengthen our position during the transition.

With carefully detailed planning complete, we look forward to a smooth transition to the new U.S. Head Office in Atlanta during the summer of 1982. We are confident that our new location will be a significant factor in our future growth. □

## UNITED KINGDOM

Despite a year of severe economic difficulties, 1981 proved profitable for the Company in the United Kingdom. It also marked the 75th anniversary of Confederation Life's entry to the United Kingdom market.

The recession of 1980 in the United Kingdom continued in 1981 with further contraction of general business activity, and unemployment reaching three million by the end of the year. In these circumstances, a high proportion of our established sales force had to make a difficult adjustment from the traditional reliance on repeat business arising from service calls, towards seeking out areas of the market least affected by the adverse economic conditions.

### Individual Insurance

A measure of their success is that total Individual premium income of £32.5 million, or \$78 million (Can.) represented a 29 per cent increase over the year, compared to an increase of 22 per cent in 1980. A persistency rate of 90 per cent reflected a continuation of sound sales practices and maintenance of a high standard of service to policyholders.

In June and July a very successful "75th Anniversary" sales contest was held, and in September, Mr. J. A. Rhind, President, came to London to congratulate and present awards to the pacesetters.

Amongst our 28 branch offices, London Central emerged as leader in sales volume after very close competition from Sheffield which captured the trophy for best all-round performance.

### Group Pension Sales

Group Pension sales showed a marked increase over the previous year. An improved product range was introduced in mid-year and we



P. Wortman  
Vice-President and General Manager for the  
United Kingdom

expect the Group line will become of steadily increasing importance in the United Kingdom.

Overall financial results for Individual and Group operations were satisfactory in all product lines and for the fourth consecutive year total administration expense declined as a percentage of premium income. At the end of the year the Region had funds under management amounting to £140 million, or \$336 million (Can.). Elsewhere in this report, comment is made on an interesting and successful year in investment operations in the United Kingdom.

### Linked Products

In the marketplace, life insurance and pension products linked in various ways to the investment performance of segregated funds, continued to grow in popularity. Such policies accounted for more than half of total sales. A comprehensive profitability study carried out during the year served to confirm the financial soundness of the current and projected portfolio for this linked business.

The continued growth in sales of linked policies will require a separate computer system. In January the development of such a system was begun with a target completion date of mid-1983. While the centre of the system will be located in the Home Office in Toronto, the development of the new computer system will be a major undertaking on both sides of the Atlantic. The year also saw continued progress in applications of our existing computer facility, which, while complementary to the central system in Toronto, continues to service efficiently local requirements.

The staff of United Kingdom Head Office has done a fine job in enhancing the quality of service to the sales force and policyholders. Also, meetings of such groups as the Managers' Advisory Committee, Branch Office Secretaries and the Staff Association contributed much to good internal communication.

We enter 1982 confident that the United Kingdom Region will continue to play its important part in the Company's overall progress. □

## INVESTMENTS

During 1981, total assets of Confederation Life increased by \$307.3 million to total \$3.5 billion. The investment of these funds was the responsibility of investment teams located in Home Office, Mortgage and Real Estate Branches across Canada and in the United Kingdom Head Office.

### Canada

After holding up well for most of 1981, Canadian economic activity dropped sharply in the final quarter. High interest rates took their toll on domestic demand and weak activity on a global basis contributed to a poor year on the export front. Price developments were adverse for Canada as domestic inflation remained in double digit figures while the prices of our commodity exports were depressed. Rising costs and weak markets proved disastrous for corporate profits, which experienced their biggest decline of the post war period.

The 1981 financial market environment was extremely volatile, with unprecedented high interest rates.

Investment policy for new money for the Canadian general insurance funds continued to emphasize mortgages. Despite a difficult environment, \$95 million of mortgage loans were approved at an average rate of 18 per cent. Mortgage lending policy emphasized immediate payout loans, forward commitments (where the rate at time of disbursement was tied to a formula) and ownership in a project in return for a lower rate of interest.

The Toronto Stock Exchange 300 Index closed at 1954, down 13.9 per cent. In particular, many resource stocks were hard hit by falling corporate profits.

The market value of our Canadian holdings of common stocks, excluding segregated funds, was \$151



J. H. Watson  
Vice-President, Investments

million, up from \$126 million at the end of 1980.

A new real estate policy was adopted for the general funds of the Company which will emphasize investment in large metropolitan areas of Canada and the United States. For example, the Company will acquire a 75 per cent interest in the Airway Centre, a large suburban office building adjacent to Toronto International Airport.

Investment policy for the majority of Canadian Pension clients emphasized U.S. common stocks and short term investments. Toward the year end a greater emphasis was placed on Canadian common stocks, following a significant decline in share prices of many Canadian companies. In addition, it was recommended that clients consider placing up to 10 per cent of the assets of their total funds into the Confederation Life Real Estate Fund, which commenced operation on January 1, 1982.

Canadian Pension clients' results improved significantly in 1981. The Canadian pooled stock fund ranked third out of twenty-eight and the

United States pooled stock fund first out of ten funds for the one year period ended September 30, 1981 on the Johnson and Higgins Willis Faber Investment Measurement Report.

### United States

After surging early in the year, the U.S. economy began a sharp decline in late summer. Economic policy over much of the year was restrictive.

The United States also experienced a volatile interest rate environment in 1981, which severely curtailed the availability of traditional long term mortgages.

Investment policy for new money in the U.S. general insurance funds emphasized high yielding fixed income investments, where possible. Some \$28 million of mortgage loans were approved. Four participation mortgage loans totalling \$18 million were finalized, including the \$9.1 million financing of our new U.S. Head Office building in Atlanta. Two private placement bond issues totalling \$5 million were completed.

The Standard & Poor's 500 Stock Market Index closed the year at

*Continued on page 15*



General view of the Trading Room, in the Investment Area, Home Office. Instant communications with investment dealers allow skilled personnel to execute transactions exceeding \$4.5 billion per year.

## CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended December 31, 1981.  
Stated in thousands of dollars.

<b>Revenue</b>	<b>1981</b>	1980
Premiums		
Life	\$ 290,357	\$ 244,560
Health	338,115	268,737
Annuities and pensions	314,798	233,314
Net investment income ( <i>note 2</i> )	318,065	266,970
Net market value gain (loss) on segregated investments	(56,768)	48,108
	<b>1,204,567</b>	1,061,689

### Disposition of revenue

Policyholder benefits arising from

Death claims	\$ 112,059	\$ 84,679
Disability and health claims	269,049	209,209
Annuity and pension payments	54,851	45,114
Other policy payments ( <i>note 6</i> )	302,631	109,677
Dividends on individual policies	28,457	26,391
Experience refunds on group policies	31,918	19,392
Increase in policy reserves ( <i>notes 1(v) and (vi)</i> )	272,891	202,993
Increase (decrease) in segregated investment funds	(37,705)	198,215
Operating expenses	139,861	110,324
Premium and income taxes ( <i>note 1(vi)</i> )	9,463	19,861
	<b>1,183,475</b>	1,025,855

Operating income	21,092	35,834
Unusual and extraordinary income (expenses) ( <i>note 3</i> )	10,143	(2,255)
Net income	<b>\$ 31,235</b>	\$ 33,579

(See Notes—page 14)

## CONSOLIDATED STATEMENT OF SURPLUS

for the year ended December 31, 1981.  
 Stated in thousands of dollars.

	<b>1981</b>	1980
Balance, beginning of year	<b>\$114,947</b>	\$ 94,888
Net income	<b>31,235</b>	33,579
Transfer from (to) additional reserve required by law	<b>(23,226)</b>	10,480
Transfer from (to) investment and contingency reserve	<b>Nil</b>	(24,000)
Balance, end of year	<b>\$122,956</b>	\$114,947

*(See Notes—page 14)*

## CONSOLIDATED BALANCE SHEET

as at December 31, 1981.  
Stated in thousands of dollars.

<b>ASSETS</b>	<b>1981</b>	<b>1980</b>
Mortgages	<b>\$1,137,424</b>	\$1,009,359
Bonds	<b>735,821</b>	656,160
Stocks	<b>247,443</b>	177,983
Real estate	<b>115,979</b>	112,878
Cash	<b>2,791</b>	2,890
Investment income, earned but not yet received	<b>43,300</b>	36,174
Segregated investments	<b>864,050</b>	901,755
Policy loans	<b>235,772</b>	190,395
Premiums in course of collection	<b>58,365</b>	49,587
Miscellaneous assets	<b>30,110</b>	26,654
	<b>\$3,471,055</b>	\$3,163,835

(See Notes—page 14)

### AUDITORS' REPORT

To the Policyholders and Directors  
of Confederation Life Insurance  
Company:

We have examined the Consolidated Balance Sheet of Confederation Life Insurance Company as at December 31, 1981 and the Consolidated Statements of Operations and Surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances; we have relied on the opinion of the Company's Valuation Actuary as to the amount of the Company's Policy Reserves and Additional Reserve Required by Law.

In our opinion, based on our examination and the opinion of the Company's Valuation Actuary, these financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations for the year then ended in accordance with the accounting practices described in note 1 applied on a basis consistent with that of the preceding year.

*Clarkson Gordon  
Chartered Accountants*

Toronto, Canada,  
January 28, 1982.

<b>LIABILITIES AND SURPLUS</b>	<b>1981</b>	<b>1980</b>
Policy reserves ( <i>notes 1(v) and (vi)</i> )	<b>\$2,068,125</b>	\$1,768,686
Policy amounts on deposit	<b>127,926</b>	108,501
Policy benefits in course of payment	<b>19,658</b>	13,734
Segregated investment funds	<b>864,050</b>	901,755
Net amount owing to banks	<b>17,669</b>	8,957
Deferred net capital gains ( <i>note 4</i> )	<b>1,616</b>	12,319
Provision for future taxes ( <i>note 1(vi)</i> )	<b>4,793</b>	10,669
Other liabilities	<b>41,588</b>	44,819
Additional reserve required by law	<b>92,674</b>	69,448
Investment and contingency reserve	<b>110,000</b>	110,000
<b>Surplus</b>	<b>122,956</b>	114,947
	<b>\$3,471,055</b>	\$3,163,835

(See Notes—page 14)

### REPORT OF THE VALUATION ACTUARY

I have made the valuation of the Policy Reserves of Confederation Life Insurance Company for its Consolidated Balance Sheet as at December 31, 1981 and for its Consolidated Statement of Operations for the year then ended. In my opinion (i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries (ii) the amount of the Policy Reserves makes proper provision for the future payments under

the Company's policies and contracts (iii) a proper charge on account of those Policy Reserves has been made in the Consolidated Statement of Operations, and (iv) the amount of Additional Reserve Required by Law is proper.

*Michael Rosenfelder, F.C.I.A.  
Corporate Vice-President  
Actuarial, Taxation & Statements*

Toronto, Canada  
January 28, 1982.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Significant accounting practices

The accounting practices and presentation adopted by the Company are based upon those prescribed for purposes of annual filings with the Department of Insurance of Canada.

The significant practices are described below.

(i) The financial statements are prepared on a consolidated basis to include the operations of the Company's wholly-owned life insurance and real estate subsidiaries.

(ii) Throughout the statements, United States currency is included at the rate of \$1.18 Canadian to the U.S. dollar (\$1.10 is used in the comparative 1980 figures), and Sterling currency at \$2.40 Canadian to the pound. If current rates of exchange had been used in the consolidated balance sheet there would have been no change in the surplus shown.

(iii) Mortgages and bonds are valued at amortized cost and stocks are valued at cost. Real estate investments are valued at cost less accumulated depreciation. Segregated investments are valued at market. (iv) As required by the insurance laws of Canada, realized gains and losses on the sale of mortgages and bonds in the life account are deferred and brought into income over the remaining life of the security, but for a period not exceeding 20 years.

Realized and unrealized gains and losses on stocks in the life account are deferred and brought into income at the rate of 7% annually, applied to the unamortized balance. Realized gains and losses on real estate, on certain miscellaneous assets, and on all health account investments, are included in income as unusual and extraordinary items.

(v) The policy reserves represent the present value of future policy

benefits less premiums, after taking into account related expenses and taxes. These reserves are determined based on assumptions as to future rates of interest, mortality, morbidity, and policy termination, and reflect a reduction for deferred acquisition expenses of \$119,761,000. (vi) Income taxes are provided using the accrual method of tax allocation, and are discounted for interest. The amounts included in the financial statements are as follows:

Stated in thousands of dollars	1981	1980
--------------------------------	------	------

### Consolidated statement of operations

current and deferred tax cost (recovery) not related to policy reserves and included in premium and income taxes	(4,553)	6,546
deferred tax cost (recovery) included in increase in policy reserves	5,782	(1,927)
current and deferred tax cost (recovery) related to unusual and extraordinary items	203	(3,085)

### Consolidated balance sheet

provision for current taxes included in other liabilities	(2,663)	8,392
provision for deferred taxes not related to policy reserves and shown as a provision for future taxes	4,793	10,669
provision for deferred taxes included in policy reserves	15,952	10,170

## 2. Investment gains and losses

Net investment income includes the following amounts:

Stated in thousands of dollars	1981	1980
Amortization of net realized and unrealized gains on stocks	5,604	6,489
Amortization of net realized losses on bonds	(3,478)	(1,473)
Realized gain (loss) on currency exchange	948	(508)
Total	3,074	4,508

## 3. Unusual and extraordinary income (expenses)

Stated in thousands of dollars	1981	1980
Net realized gains on real estate	1,375	485
Net realized losses on health account investments	(156)	(94)
Gain due to changes in book rates of exchange	5,376	Nil
Cost of benefit enhancements on certain older participating policies	Nil	(8,644)
Income tax cost (recovery) on foregoing items	(203)	3,085
Recovery of prior years' income taxes	3,751	2,913
Total	<b>10,143</b>	<b>(2,255)</b>

## 4. Deferred net capital gains

Stated in thousands of dollars	1981	1980
Gains on stocks not yet included in income	50,519	32,620
Losses on bonds not yet included in income	(48,903)	(20,301)
Total	<b>1,616</b>	<b>12,319</b>

## 5. Company pension plan

The unfunded liability arising from past improvements in pension benefits amounts to \$11,099,000 (1980—\$11,758,000) and is being amortized over approximately the next 12 years by annual payments of \$1,325,000.

## 6. Other policy payments

Stated in thousands of dollars	1981	1980
Policy terminations		
Life and health	74,192	47,605
Annuities	37,683	23,391
Pensions	177,382	28,843
Interest to policyholders	13,374	9,838
Total	<b>302,631</b>	<b>109,677</b>

122.6, down 9.7 per cent.

The market value of our U.S. holdings of common stocks, excluding segregated funds, was approximately \$89 million (U.S.) at year end, up from \$86 million at the end of 1980.

The American Stock Fund, our pooled common stock fund for U.S. pension clients, continued its above average performance. For the one, three, five and ten year periods ended September 30, 1981, it ranked in the top quartile out of more than 200 equity funds on the Pension and Investment Performance Evaluation Report Survey.

### United Kingdom

It was a grim year for the United Kingdom economy with total output declining by close to three per cent, industrial production dropping by nearly six per cent and the number of unemployed rising to almost three million. The inflation rate did moderate in 1981 to between 11 and 12 per cent from 18 per cent in 1980. The pound lost 20 per cent against the dollar.

Interest rates were relatively stable in comparison with North America. The U.K. stock market, as measured by the Financial Times Actuaries All



The Airway Center, opposite Toronto's busy International Airport is an example of Confederation Life's real estate investments in Canada.

Share Index, had the best performance of major stock market indices in the three regions, closing at 313, up 6.8 per cent.

Investment policy for U.K. general insurance funds continued to emphasize government securities, supplemented by increased activity in the "bulldog" market. Bulldogs are sterling denominated bonds issued by foreign borrowers in the U.K. There was a distinct increase in mortgage loan cancellations as developers decided to cancel rather than consummate at prohibitive rates.

Investment policy for U.K. Unit Linked Managed Funds began the year with a heavy emphasis on equities (60 per cent of total assets) but during the year new money was allocated, 60 per cent to bonds and 40 per cent to stocks.

The results for the U.K. Segregated Bond and Real Estate Funds were exceptional. The Pooled Bond Fund ranked first out of eleven funds on the Wyatt, Harris Graham Survey of Pooled Pension Funds for the one, three and five year periods ended September 30, 1981. The Pooled Real Estate Fund ranked well up in the first quartile of comparable funds on the same survey for similar time periods.

A highlight of 1981 was the introduction in September of a Pooled International Common Stock Fund for U.K. clients.

Backed by a strong commitment to investment research in all regions, the Investment Area is proud of its contribution to the financial security of Confederation Life's policyholders. □



Confederation Life makes a significant contribution to residential, industrial and commercial development throughout North America and the United Kingdom. This attractive, multi-family housing development in Seattle, Washington, was financed by Confederation Life.

## INTERNATIONAL OPERATIONS



Home Office of Confederation Life is located at 321 Bloor Street East, Toronto, Canada. With some fifteen hundred employees, it serves as headquarters for the Company's operations throughout Canada, the United States and Caribbean, and the United Kingdom.

The United Kingdom Head Office is located at 50/52 Chancery Lane, London, England. The building houses some two hundred employees who administer the Company's business throughout the British Isles.



Artist's sketch of the new United States Head Office for Confederation Life in Atlanta, Georgia. The building is due for completion in July, 1982, when it will house some two hundred and seventy-five employees who will administer the Company's business in the United States and Caribbean.

## BOARD OF DIRECTORS

J. Page R. Wadsworth\*

*Chairman*

John A. Rhind\*

*President and Chief Executive Officer*

Donald A. McIntosh, Q.C.\*

*Vice-President,*

*Partner, Fraser & Beatty*

George E. Mara\*

*Vice-President,*

*Chairman, Jannock Limited*

George R. Albino

*Chairman and President,*

*Rio Algom Ltd.*

Claude T. Bissell, C.C., Ph.D., D.Litt.,

D. ès L., LL.D., F.R.S.C.

*Former President, University of Toronto*

Conrad M. Black

*Chairman, Argus Corporation Limited*

Patrick D. Burns\*

*Executive Vice-President*

Pierre P. Daigle

*Vice-President, Harold Cummings*

*Leasing Division, Montreal*

Anthony F. Griffiths

*Vice-Chairman and President,*

*Harding Carpets Limited*

C. Malim Harding, O.B.E.

*Chairman,*

*Harding Carpets Limited*

Thomas E. Ladner, Q.C.

*Partner, Ladner Downs,*

*Vancouver*

André Monast, Q.C.

*Partner, Létourneau & Stein,*

*Québec*

Sir David Nicolson, F.Eng., M.E.P.

*Chairman,*

*Rothmans International Limited,*

*London, England*

Mrs. Helen D. Phelan

*Chairman,*

*Percy R. Gardiner Foundation*

Ray D. Wolfe, C.M.\*

*Chairman and President,*

*The Oshawa Group Limited*

## SENIOR OFFICERS

J. A. Rhind

*President and Chief Executive Officer*

P. D. Burns

*Executive Vice-President*

J. B. Heard

*Vice-President, Canadian Operations*

W. R. Learmonth, Q.C.

*Vice-President, General Counsel  
and Secretary*

P. W. Lloyd

*Vice-President, United States and  
Caribbean Operations*

J. H. Watson

*Vice-President, Investments*

D. E. Watts

*Vice-President, Corporate*

P. Wortman

*Vice-President and General Manager for  
the United Kingdom*

\* Member of Executive Committee

